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TREASURY FOR MKACZMAREK
NSC FOR DRESTREPO AND LROSSELLO
USDOC FOR 4332 MAC/ITA/WH/JLAO

E.O. 12958: N/A

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SUBJECT: PARALLEL RATE DROPS ON APPARENT GBRV SALE OF
DOLLAR ASSETS AND SPECULATION OVER NEW BOND ISSUANCES

REF: A. CARACAS 351 AND PREVIOUS

[1](#)B. CARACAS 548

[1](#)1. (U) The parallel rate has dropped approximately 17 percent over the last seven weeks, from 7 bolivars (Bs)/USD in early August to its current rate of 5.8 Bs/ USD (as measured by the cost of buying one dollar), with the sharpest drop occurring over the past 10 days. Most analysts attribute the initial, more gradual descent to the expectation the Government of the Bolivarian Republic of Venezuela (GBRV) would announce a significant issuance of dollar-denominated bonds, payable in bolivars, as part of a strategy to contain the parallel rate. (Note: This announcement has not happened but is still expected. End note.) Most analysts attribute the recent, sharper drop to significant sales by the GBRV and its affiliated companies of previously issued, dollar-denominated GBRV debt held by these companies into the parallel market. (Note: The parallel market is highly volatile and lacks transparency. The GBRV is a major supplier of dollars to the market, and one of the sources of volatility is the lack of a consistent intervention strategy by the GBRV. At this point, the exact source and nature of the debt the GBRV is selling are not clear. End note.)

[1](#)2. (SBU) Comment: As noted in ref A, we and most analysts believe the parallel rate will rise over the course of 2009, though not in a linear fashion given changes in the GBRV's intervention strategy. In 2008, for example, regular GBRV sales of dollars into the parallel market caused the rate to fall from a prior high of 6.8 Bs/USD in November 2007 to 3.5 Bs/USD in May, 2008. The rate remained at this level into August 2008 and then rose again, as the GBRV stopped these sales. Central Bank President Nelson Merentes is a known believer in closely managing the parallel rate (ref B), and we would not be surprised if he convinced President Chavez to order that the rate fall. It appears Chavez did make such a decision: according to press reports, on September 17, while announcing the GBRV had taken 40 economic measures that would be announced in the coming days, Chavez claimed the GBRV had "brought about a reduction in the gap between the official and parallel rates in order to improve national production."

[1](#)3. (SBU) Comment, continued: If indeed lowering the parallel rate is an important element of GBRV strategy to stimulate the economy, there are two problems with this approach. First, it will be difficult for the GBRV to keep the parallel rate at a given level over the medium term, particularly given annual inflation of 25 to 30 percent. The

GBRV certainly has the wherewithal to do it in the short term, but at the cost of depleting the GBRV's dollar accounts (or increasing its dollar indebtedness). Second, the economic benefits of lowering the parallel rate are tenuous. The GBRV seems convinced at times that managing the parallel rate is the key to controlling inflation and stimulating the economy. Although it may help, there has been no noticeable correlation between a lower parallel rate and inflation or economic growth in the past several years. More importantly, as one banker recently remarked to us, if the government seriously cared about the economy it would start with measures to enhance legal and personal security, protect private property, attract investment, protect intellectual property, etc. End comment.

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